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Office of Mayor Gavin Newsom
City & County of San Francisco



Johanna Partin
Director, Climate Protection Initiatives

December 15, 2010

Chairman Mary Nichols
Members of the Board
California Air Resources Board
1001 "I" Street
P.O. Box 2815
Sacramento, CA 95812

Dear Chairman Nichols and Members of the Board:

On behalf of San Francisco Mayor Gavin Newsom and the City and County of San Francisco, thank you for the opportunity to provide comments on the California Air Resources Board's (ARB's) proposed cap on green house gas (GHG) emissions, market-based compliance mechanisms regulation, and compliance offset protocols. San Francisco commends ARB for moving forward with implementation of the Global Warming Solution Act. While the City had originally urged the Board to pursue a carbon fee instead of cap and trade, we recognize that the program currently being proposed is designed to steer our state towards a profitable economy that does not rely on fossil fuels, and as such ARB is demonstrating national leadership in addressing one of the greatest challenges of the century.

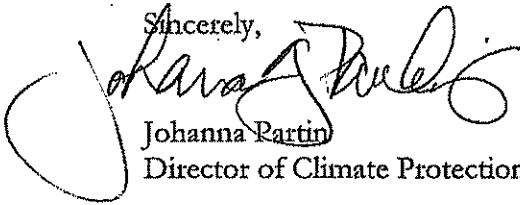
Under AB32 cities are working to realize a combined reduction of 15% of the State's green house gas emissions. San Francisco's own goals exceed this reduction commitment, but since roughly 50% of our emissions come from transportation—which is largely regulated and funded by state and national government—and 50% of our emissions come from the energy used in our community—the majority of which is supplied by outside providers—the City will require assistance in funding the infrastructure transitions and projects necessary to reduce emissions in these areas. Specifically, the areas of local renewable energy generation, public transportation and natural resource conservation/rehabilitation for climate adaptation will all contribute to reduced carbon emissions and increase the City's security and resiliency in the face of climate change. Deployment of these programs at a large scale will increase the local demand for a skilled workforce, and further investment in workforce training will allow our current programs to expand and put more green collar workers back to work.

Given that the resident time for GHG in the biosphere is 50 to 100 years, the City, whose electric consumption produces only 13 lbs of carbon per MWh, has already made a significant contribution toward meeting California's GHG reduction goals. Further, the City, which operates half its public transit fleet on the City's carbon-neutral electric generation and is under significant pressure to expand public transportation, could face significant challenges under the proposed guidelines. Thus, the City will be directly impacted by ARB's proposal, and appreciates this opportunity to offer comments about the proposed regulations, as described in the attached document.

The City urges the Board to use the opportunity of the current guideline setting process to create a dedicated funding mechanism for public transportation infrastructure and planning, and to channel increased funding to cities that have demonstrated leadership on GHG reductions and could expand these efforts to mutually benefit both cities' and the State's climate action strategies.

Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Johanna Partin', is written over the printed name.

Johanna Partin

Director of Climate Protection Initiatives

City and County of San Francisco Comments on the California Air Resources Board's Proposed Cap on Green House Gas Emissions, Market-based Compliance Mechanisms Regulation, and Compliance Offset Protocols

Background

The City and County of San Francisco ("the City") would like to congratulate and thank the Air Resources Board ("ARB" or "the Board") for moving forward with implementation of the Global Warming Solutions Act. California local governments are already working to realize a combined reduction of 15% of the State's green house gas emissions, and San Francisco has adopted an even more ambitious reduction target.

The City has been in the forefront of reducing GHG emissions from the government functions it controls. This includes a city-owned utility system that provides power to municipal buildings that has among the lowest GHG emissions of any California electric utility and the largest electric bus fleet in the United States.

Where San Francisco will need help is in reducing GHG emissions within the City that it does not directly control – roughly 50% from transportation and 50% from electric and natural gas energy provided by other utilities to San Francisco's citizens.

To reduce these emissions, the City will require assistance in funding the necessary infrastructure such as local renewable energy generation, public transportation and natural resource conservation/rehabilitation. These projects will increase the City's security and resiliency in the face of climate change and further increase the local demand and training opportunities for a skilled green collar workforce.

Recommendations

Both in allocating allowances, and in deciding how to use revenues from the sale of allowances, the City urges the Board to channel increased funding to those cities that have demonstrated leadership on GHG reductions and could thereby further expand their efforts to mutually benefit both local and the State climate action strategies.

This should be done by:

- Auctioning more allowances in the first three years of program implementation and move towards 100% as soon as possible.
- Recognizing the historically low emissions of the San Francisco Public Utilities Commission's (SFPUC's) electric system in allocating allowances to the electric sector; and Use the Current guideline-setting process to create a dedicated funding mechanism for GHG-reducing infrastructure and planning.
- Allow funds to be used for public transportation and other GHG-reducing transportation programs; and
- Recognize that GHG emissions from public transit providers may go up under the

ARB's proposal and that both transit systems and transit riders are protected from increased costs.

- Provide funds mitigate impacts of pollution and economic transition on disadvantaged communities and provide funding opportunities to scale up the City's existing green job workforce training program.
- Support activities that encourage the recovery, recycling and reuse of waste materials

These points are discussed in greater detail below.

1. Recognize the historically low emissions of the SFPUC's electric system in allocating allowances to the electric sector.

The SFPUC has the lowest GHG emissions per megawatt hour (MWh) of any large California electric utility. The current proposal fails to properly recognize the City's low GHG footprint and potentially loads the City's municipal utility operations with a greater cost burden than emissions-intensive utilities.

The initial ARB staff proposal has not benefited from public discussion on the issue of how to allocate allowances to the electric sector. Subsequent to the release of the staff proposal, the SFPUC became aware that ARB staff, working with a selected group of electric utilities (the Joint Utilities Group or JUG), is now proposing an entirely new allocation mechanism that has yet to be made publicly available for comment or review.

After a review of the JUG proposal, it is clear that it unfairly rewards those utilities which have historically had high-GHG emissions at the expense of utilities such as the SFPUC. Paradoxically, the SFPUC, despite having amongst the lowest GHG emissions rate of any public utility in California, could find itself in the position of needing to buy allowances to meet its demand during times of drought conditions and to meet future load growth. This represents a significant departure from ARB's original proposal to allocate allowances based on a combination of utility sales and historical emissions, an allocation method much more consistent with rewarding past actions to reduce GHG emissions.

Under the JUG proposal, the SFPUC would forego potential revenue from allocations it should receive. Requiring SFPUC to buy allowances while high-emission utilities are relieved of that cost would not be equitable, and in effect would create a situation in which SFPUC would subsidize energy efficiency and renewable energy investments by electric utilities which use much higher GHG-producing fuel sources.

We therefore recommend that ARB:

- A. Refrain from endorsing the JUG proposal at this time until interested parties have had time to review and analyze its methodology and proposed allocation. These detailed proposals represent a fundamental change from the guiding principles outlined in the Initial Statement of Reasons (ISOR), and therefore warrant proper

public process. The JUG proposal also grants allowances, in contravention of the requirements of AB32, for “early action” that is already required by State law.

- B. The Board should direct ARB staff to focus on the stated goals of any allocation proposal and the requirement that it; “provide proper incentives, [be] affordable for all utilities, and [be] considered equitable.”
- C. The City encourages ARB to include as the stated goals of the JUG to:
 - Ensure that utilities with lower GHG emissions have sufficient allowances to provide reliable service and meet their needs;
 - Ensure that utilities with lower GHG emissions do not see increased rates as a result of cap-and-trade implementation (The Allocation-Cost Burden); and
 - Afford utilities with lower GHG emissions a proportionately greater net benefit (i.e., a larger Allocation-Cost Burden) from the allocation process than utilities with higher GHG emissions.
- D. In order to recognize and reward electric distribution utilities with demonstrated low-GHG emissions, and to provide an incentive for other utilities to continue to reduce their GHG emissions, the City encourages ARB to establish a minimum allocation for all electric utilities. A minimum allocation that is below the 2020 target for the electric sector (specifically, 200 metric tons per gigawatt-hour) will ensure that low-GHG utilities will be rewarded for their past and current efforts and provided with a revenue source to support growth, fund further renewable and energy efficiency programs and investments and mitigate rate impacts on their customers.
- E. The ARB should give staff the necessary discretion to craft appropriate modifications to any proposed allocation mechanism finally adopted.

2. Use the current guideline-setting process to create a dedicated funding mechanism for public transportation infrastructure and planning.

The progression from including major sources of GHG emissions (refineries, power plants, industrial facilities, and transportation fuels), to covering electricity generation by 2012 and then finally fuel distributors to address transportation fuels by 2015 is a logical one. The proposed cap and trade system has the potential to increase the cost of fuel at the pump as fuel producers offset the cost of emission allowances by increasing the cost of fuel. Throughout the economy, this is precisely what is needed. The main source of funding for transportation projects are state and federal excise taxes on gasoline; the increase fuel costs from a cap and trade system limits the ability to increase the tax for transportation purposes. Yet increased funding to transit service providers and non-motorized transportation projects, as well as a shift away from subsidizing the state highway system will be critical to reducing transportation sector emissions. We therefore recommend that ARB:

- A. Include explicit language in the Air Pollution Control Fund to decrease the impacts of rising fuel costs on public transportation providers.
- B. Dedicate cap-and-trade allowances and create a transportation investment program to invest in:
- Transportation infrastructure, including public transit and non-motorized facilities, acceleration of cleaner fleets, and implementation of transportation/congestion/parking pricing strategies;
 - Planning resources to develop and implement regional and local land use and transportation plans focused on implementing the GHG reduction goals in AB 32 and the planning mandates of SB 375;
 - Transportation demand management programs, electric vehicles and associated infrastructure and bicycle sharing. These programs exist in combination with several projects that increase the efficiency of San Francisco's transit system, including the Central Subway, Van Ness Avenue Bus Rapid Transit (BRT), Geary BRT and the Transit Effectiveness Project;
 - The current State transportation funding programs that come from the sales tax on gasoline should be set up to dedicate any increases from this program to transportation infrastructure investments that limit GHG's;
 - Transportation fuels should be broken into two categories – one for the private automobile and goods movement sectors, and another for transit service providers. This way, a clear price signal can be sent to 98% of the largest contributors to transportation-related emissions in the private sector, while transit service providers in the public realm are able to continue their shift away from GHG emissions without the added burden of cap and trade-induced transportation fuel increases.
- C. Transit Service Providers should be expected and allowed to increase energy consumption.
- D. Certainly the Air Resources Board recognizes that in order for overall emissions in the transportation sector to decrease, emissions and energy consumption for transit service providers must increase as these systems expand. Even with measurable moves toward expanded electric rail service, electric vehicle fleets, hydrogen fuel cells, etc., all of California's transit service providers - including the San Francisco Municipal Transportation Agency - must play a greater role in the state's movement of people and therefore should be allowed, without significant cost burdens to already cash-strapped public agencies, to acquire transportation fuels and other energy sources at a price point which will not deteriorate the ability to provide growing service to an increasingly transit dependent public.
- E. ARB should give low GHG-emitting public transit agencies credit for the services they provide, such that agencies which have already made proactive investments to reduce emissions do not find themselves unnecessarily burdened by the rising

energy costs of the proposed cap-and-trade program. For example, agencies which have already converted their fleets to reduce carbon footprints might be given greater allowances to secure energy in future years.

- F. Create a forum for further input from and discussion with transit agencies and transportation planners around the state to mitigate expected impacts. This will enable the shift toward a truly sustainable transportation sector and it will enable continued support for the cap-and-trade program from public agencies.

3. Devote funds to job training and disadvantaged communities.

- A. The Air Resources Board's consideration for utilizing a Low-Carbon Investment Fund for workforce development can be further strengthened by adopting a "green pathways out of poverty" strategy. Acknowledging the communities that have historically carried the brunt of environmental injustices in our state by supporting their growth in the burgeoning green economy would not only strengthen the impact of a Cap and Trade plan, but could add to the universal support of such a plan.
- B. "Job Training" and "Disadvantaged Communities" are listed as two separate opportunities for public investment of the Cap and Trade allowances, yet there is a clear opportunity and need for these types of investments to be strategically coordinated. While many higher learning institutions offer access to jobs in the green workforce, there is still a disproportionate number of young adults from undeserved or disadvantaged communities who do not have access to these resources; preventing access to quality green jobs. The Cap and Trade allowance investment could act as a social-economic equalizer in the aspect by ensuring high level training.

4. Support activities that encourage the recovery, recycling and reuse of waste materials.

- A. Do not allow CO₂ emissions from biomass energy and fuels to be considered carbon neutral. Landfill methane or emissions from burning waste should not be considered "carbon neutral", especially in light of the preferable environmental alternatives of composting and AD that will provide greater overall emissions reductions.
- B. Require waste-to-energy facilities to be subject to a GHG emissions cap. Do not consider waste-to-energy biogenic.
- C. Develop offset protocols that can create credits for the use of recycled materials.